Christine Lagarde: ECB press conference - introductory statement

Introductory statement by Ms Christine Lagarde, President of the European Central Bank, and Mr Luis de Guindos, Vice-President of the European Central Bank, Frankfurt am Main, 17 April 2025.

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Good afternoon, the Vice-President and I welcome you to our press conference.

The Governing Council today decided to lower the three key ECB interest rates by 25 basis points. In particular, the decision to lower the deposit facility rate – the rate through which we steer the monetary policy stance – is based on our updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission.

The disinflation process is well on track. Inflation has continued to develop as staff expected, with both headline and core inflation declining in March. Services inflation has also eased markedly over recent months. Most measures of underlying inflation suggest that inflation will settle at around our two per cent medium-term target on a sustained basis. Wage growth is moderating, and profits are partially buffering the impact of still elevated wage growth on inflation. The euro area economy has been building up some resilience against global shocks, but the outlook for growth has deteriorated owing to rising trade tensions. Increased uncertainty is likely to reduce confidence among households and firms, and the adverse and volatile market response to the trade tensions is likely to have a tightening impact on financing conditions. These factors may further weigh on the economic outlook for the euro area.

We are determined to ensure that inflation stabilises sustainably at our two per cent medium-term target. Especially in current conditions of exceptional uncertainty, we will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. In particular, our interest rate decisions will be based on our assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission. We are not pre-committing to a particular rate path.

The decisions taken today are set out in a press release available on our website.

I will now outline in more detail how we see the economy and inflation developing and will then explain our assessment of financial and monetary conditions.

Economic activity

The economic outlook is clouded by exceptional uncertainty. Euro area exporters face new barriers to trade, although their scope remains unclear. Disruptions to international commerce, financial market tensions and geopolitical uncertainty are weighing on business investment. As consumers become more cautious about the future, they may hold back from spending as well.

At the same time, the euro area economy has been building up some resilience against the global shocks. The economy is likely to have grown in the first quarter of the year, and manufacturing has shown signs of stabilisation. Unemployment fell to 6.1 per cent in February, its lowest level since the launch of the euro. A strong labour market, higher real incomes and the impact of our monetary policy should underpin spending. The important policy initiatives that have been launched at the national and EU levels to increase defence spending and infrastructure investment can be expected to bolster manufacturing, which is also reflected in recent surveys.

In the present geopolitical environment, it is even more urgent for fiscal and structural policies to make the euro area economy more productive, competitive and resilient. The European Commission's Competitiveness Compass provides a concrete roadmap for action, and its proposals, including on simplification, should be swiftly adopted. This includes completing the savings and investment union, following a clear and ambitious timetable, which should help savers benefit from more opportunities to invest and improve firms' access to finance, especially risk capital. It is also important to rapidly establish the legislative framework to prepare the ground for the potential introduction of a digital euro. Governments should ensure sustainable public finances in line with the EU's economic governance framework and prioritise essential growth-enhancing structural reforms and strategic investment.

Inflation

Annual inflation edged down to 2.2 per cent in March. Energy prices fell by 1.0 per cent, after a slight rise in February, while food price inflation rose to 2.9 per cent in March, from 2.7 per cent in February. Goods inflation was stable at 0.6 per cent. Services inflation fell again in March, to 3.5 per cent, and it now stands half a percentage point below the rate recorded at the end of last year.

Most indicators of underlying inflation are pointing to a sustained return of inflation to our two per cent medium-term target. Domestic inflation has declined since the end of 2024. Wages are gradually moderating. In the last quarter of 2024 annual growth in compensation per employee stood at 4.1 per cent, down from 4.5 per cent in the previous quarter. Rising productivity also meant that unit labour costs grew more slowly. The ECB's wage tracker and information from our contacts with companies point to a decline in wage growth in 2025, as also indicated in the March staff projections. Unit profits fell at an annual rate of 1.1 per cent at the end of last year, contributing to lower domestic inflation.

Most measures of longer-term inflation expectations continue to stand at around 2 per cent, which supports the sustainable return of inflation to our target.

Risk assessment

Downside risks to economic growth have increased. The major escalation in global trade tensions and associated uncertainties will likely lower euro area growth by dampening exports, and it may drag down investment and consumption. Deteriorating financial market sentiment could lead to tighter financing conditions, increase risk aversion and make firms and households less willing to invest and consume. Geopolitical tensions, such as Russia's unjustified war against Ukraine and the tragic conflict in the Middle East, also remain a major source of uncertainty. At the same time, an increase in defence and infrastructure spending would add to growth.

Increasing global trade disruptions are adding more uncertainty to the outlook for euro area inflation. Falling global energy prices and appreciation of the euro could put further downward pressure on inflation. This could be reinforced by lower demand for euro area exports owing to higher tariffs, and a re-routing of exports into the euro area from countries with overcapacity. Adverse financial market reactions to the trade tensions could weigh on domestic demand and thereby also lower inflation. By contrast, a fragmentation of global supply chains could raise inflation by pushing up import prices. A boost in defence and infrastructure spending could also raise inflation over the medium term. Extreme weather events, and the unfolding climate crisis more broadly, could drive up food prices by more than expected.

Financial and monetary conditions

Risk-free interest rates have declined in response to the escalating trade tensions. Equity prices have fallen amid high volatility and corporate bond spreads have widened around the globe. The euro has strengthened over recent weeks as investor sentiment has proven more resilient towards the euro area than towards other economies.

The latest official statistics on corporate borrowing, which predated these market tensions, continued to indicate that our interest rate cuts had made it less expensive for firms to borrow. The average interest rate on new loans to firms declined to 4.1 per cent in February, from 4.3 per cent in January. Firms' cost of issuing market-based debt declined to 3.5 per cent in February, but there has been some upward pressure more recently. Moreover, growth in lending to firms picked up again in February, to 2.2 per cent, while debt securities issuance by firms grew at an unchanged rate of 3.2 per cent.

At the same time, credit standards for business loans tightened slightly again in the first quarter of 2025, as reported in our latest bank lending survey for the euro area. As in the previous quarter, this was mainly because banks are becoming more concerned about the economic risks faced by their customers. Demand for loans to firms decreased slightly in the first quarter, after a modest recovery in previous quarters.

The average rate on new mortgages, at 3.3 per cent in February, increased on the back of earlier rises in longer-term market rates. Mortgage lending continued to strengthen in February, albeit at a still subdued annual rate of 1.5 per cent, as banks eased their credit standards and demand for loans to households continued to increase strongly.

Conclusion

The Governing Council today decided to lower the three key ECB interest rates by 25 basis points. In particular, the decision to lower the deposit facility rate – the rate through which we steer the monetary policy stance – is based on our updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. We are determined to ensure that inflation stabilises sustainably at our two per cent medium-term target. Especially in current conditions of exceptional uncertainty, we will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance. In particular, our interest rate decisions will be based on our assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation and the strength of monetary policy transmission. We are not pre-committing to a particular rate path.

In any case, we stand ready to adjust all of our instruments within our mandate to ensure that inflation stabilises sustainably at our medium-term target and to preserve the smooth functioning of monetary policy transmission.

We are now ready to take your questions.